



Financial Statements  
September 30, 2011  
**Osage Nation**

# OSAGE NATION

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

To the Principal Chief and Honorable Members of the  
Osage Nation Congress  
Osage Nation  
Pawhuska, OK

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Osage Nation (the "Nation"), as of and for the year ended September 30, 2011, which collectively comprise the Nation's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Nation's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Osage Casinos, which represent 83%, 87%, and 95%, respectively, of the assets, net assets, and revenues of the discretely presented component units. We did not audit the financial statements of Osage LLC, which represent 16%, 13%, and 4.7%, respectively, of the assets, net assets, and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as they relate to the amounts included for Osage Casinos and Osage LLC is based on the reports of the other auditors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We did not apply audit procedures over the amount due to the federal government as it relates to the aggregate remaining fund information because it is currently unknown. As discussed in Note 16 to the financial statements, the Nation is unable to estimate amounts owed to the federal government due to an occurrence of embezzlement of federal funds. This matter is currently under investigation to determine the magnitude of such theft. We were unable to satisfy ourselves about the completeness of the liability by means of other auditing procedures.

In our opinion, except for the effects of not recording a liability for amounts owed to the federal government on the aggregate remaining fund information that is discussed in the preceding paragraph, the financial statements referred to in the preceding paragraph present fairly, in all material respects, the financial position of the e Osage Nation as of September 30, 2011, and the changes in its financial position and, where applicable, cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Also as discussed in Note 1 to the financial statements, the Nation has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

As discussed in Note 11 to the financial statements, certain errors resulting in the omission of health claims liability, understated capital assets, and the omission of the internal service fund as of September 30, 2010, were discovered by management of the Nation subsequent to the issuance of the auditor's report on the financial statements dated June 28, 2011. Accordingly, adjustments have been made to the net assets of the internal service fund, governmental activities, Osage Properties fund, nonmajor proprietary funds, and business-type activities to correct the errors.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2012, on our consideration of the Nation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted management's discussion and analysis and the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



Oklahoma City, Oklahoma  
September 10, 2012

# Basic Financial Statements

**OSAGE NATION**

**Statement of Net Assets**

**September 30, 2011**

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 54,175,919	\$ 1,067,256	\$ 55,243,175	\$ 42,232,901
Investments	25,483,411	-	25,483,411	-
Accounts receivable	654,708	227,096	881,804	2,363,303
Due from other governments	798,458	-	798,458	-
Prepaid expenses and other	2,015	1,370	3,385	1,683,125
Inventory	-	17,818	17,818	467,445
Receivable from related parties	4,184,199	-	4,184,199	2,069,499
Other current assets	-	-	-	1,179,422
Noncurrent assets				
Capital assets, net	9,594,740	5,175,427	14,770,167	50,994,419
Other long term assets	-	-	-	11,332,563
<b>Total assets</b>	<b>\$ 94,893,450</b>	<b>\$ 6,488,967</b>	<b>\$ 101,382,417</b>	<b>\$ 112,322,677</b>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	3,277,837	381,255	3,659,092	13,973,723
Accrued payroll liabilities	152,944	11,903	164,847	266,626
Internal balances	167,324	(167,324)	-	-
Due to related parties	-	-	-	5,108,750
Deferred/unearned revenue	18,019,006	-	18,019,006	-
Health claims liability	850,978	-	850,978	-
Other current liabilities	-	3,500	3,500	494,909
Current portion of notes payable	-	-	-	565,578
Current portion of compensated absences	233,170	26,185	259,355	119
Noncurrent liabilities				
Long-term debt	-	-	-	1,817,000
Compensated absences	116,409	13,093	129,502	-
Other noncurrent liabilities	-	-	-	35,762
<b>Total liabilities</b>	<b>22,817,668</b>	<b>268,612</b>	<b>23,086,280</b>	<b>22,262,467</b>
<b>Net assets</b>				
Invested in capital assets	9,594,740	5,175,427	14,770,167	50,994,419
Non-controlling interests in component units	-	-	-	390,662
Unrestricted	62,481,042	1,044,928	63,525,970	38,675,129
<b>Total net assets</b>	<b>\$ 72,075,782</b>	<b>\$ 6,220,355</b>	<b>\$ 78,296,137</b>	<b>\$ 90,060,210</b>

See Accompanying Notes to the Financial Statements.

**OSAGE NATION**

**Statement of Activities**

**Year Ended September 30, 2011**

	<b>Program Revenues</b>			
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Functions/Programs</b>				
<b>Governmental activities</b>				
General government	\$ 15,549,509	\$ 258,781	\$ 292,423	\$ -
Education	8,848,718	33,498	2,526,652	-
Public health and welfare	5,973,956	-	5,272,661	-
Community services	2,641,554	503,583	1,374,131	-
Child care	2,454,818	(399)	1,769,910	-
Public safety	1,678,987	27,384	993,024	-
Culture and recreation	1,672,267	215,046	2,472	-
Economic development	1,341,158	346,068	(8,064)	-
Housing assistance	1,278,402	65,946	1,352,178	-
Environmental management	818,451	-	634,504	-
Public safety	9,994,715	125,310	9,286,060	-
Unallocated depreciation	659,876	-	-	-
<b>Total governmental activities</b>	<b>\$ 52,912,411</b>	<b>\$ 1,575,217</b>	<b>\$ 23,495,951</b>	<b>\$ -</b>
<b>Business-type activities</b>				
Properties	2,302,019	-	-	-
Other	2,539,974	-	106,072	-
Total business-type activities	4,841,993	-	106,072	-
<b>Total primary government</b>	<b>\$ 57,754,404</b>	<b>\$ 1,575,217</b>	<b>\$ 23,602,023</b>	<b>\$ -</b>
<b>Component unit</b>				
Osage Casinos	\$ 17,459,818	\$ 68,540,644	\$ -	\$ -
Osage LLC	11,180,616	8,518,040	-	-
Osage Home Health	879,817	652,855	-	-
<b>Total component unit</b>	<b>\$ 29,520,251</b>	<b>\$ 77,711,539</b>	<b>\$ -</b>	<b>\$ -</b>
<b>General revenues</b>				
Deferred tax benefit				
Investment income				
interest expense				
Other				
<b>Transfers</b>				
Indirect cost recoveries				
Loss from discontinued operations				
Gaming distributions				
Transfer of assets to Osage Nation				
Distributions to related parties				
<b>Total general revenues and transfers</b>				
<b>Change in net assets</b>				
<b>Net assets - beginning</b>				
Prior period adjustments (Note 11)				
<b>Net assets - beginning, restated</b>				
<b>Net assets - ending</b>				

See Accompanying Notes to the Financial Statements.

**OSAGE NATION**

**Statement of Activities**

**Year Ended September 30, 2011**

	<u>Primary Government</u>			<b>Component Units</b>
	<u>Net (Expense) Revenue and Changes in Net Assets</u>			
<u>Functions/Programs</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
<b>Governmental activities</b>				
General government	\$ (14,998,305)	\$ -	\$ (14,998,305)	\$ -
Education	(6,288,568)	-	(6,288,568)	-
Public health and welfare	(701,295)	-	(701,295)	-
Community services	(763,840)	-	(763,840)	-
Child care	(685,307)	-	(685,307)	-
Public safety	(658,579)	-	(658,579)	-
Culture and recreation	(1,454,749)	-	(1,454,749)	-
Economic development	(1,003,154)	-	(1,003,154)	-
Housing assistance	139,722	-	139,722	-
Environmental management	(183,947)	-	(183,947)	-
Public safety	(583,345)	-	(583,345)	-
Unallocated depreciation	(659,876)	-	(659,876)	-
<b>Total governmental activities</b>	<u>(27,841,243)</u>	<u>\$ -</u>	<u>\$ (27,841,243)</u>	<u>\$ -</u>
Business-type activities				
Properties	-	(2,302,019)	(2,302,019)	-
Other	-	(2,433,902)	(2,433,902)	-
<b>Total business-type activities</b>	<u>-</u>	<u>(4,735,921)</u>	<u>(4,735,921)</u>	<u>-</u>
<b>Total primary government</b>	<u>(27,841,243)</u>	<u>(4,735,921)</u>	<u>(32,577,164)</u>	<u>-</u>
<b>Component unit</b>				
Osage Casinos	-	-	-	51,080,826
Osage LLC	-	-	-	(2,662,576)
Osage Home Health	-	-	-	(226,962)
<b>Total component unit</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,191,288</u>
<b>General revenues</b>				
Deferred tax benefit	-	-	-	107,933
Investment income	449,185	5,199	454,384	605,941
interest expense	-	-	-	(365,494)
Other	2,693,938	4,124,154	6,818,092	(82,099)
Transfers	(1,170,168)	1,157,668	(12,500)	-
Indirect cost recoveries	(72,298)	-	(72,298)	-
Loss from discontinued operations	-	-	-	(168,226)
Gaming distributions	40,691,271	-	40,691,271	(40,691,271)
Transfer of assets to Osage Nation	-	-	-	(5,611,248)
Distributions to related parties	(5,000,000)	-	(5,000,000)	5,000,000
<b>Total general revenues and transfers</b>	<u>37,591,928</u>	<u>5,287,021</u>	<u>42,878,949</u>	<u>(41,204,464)</u>
<b>Change in net assets</b>	<u>9,750,685</u>	<u>551,100</u>	<u>10,301,785</u>	<u>6,986,824</u>
<b>Net assets - beginning</b>	63,516,438	4,960,842	68,477,280	83,073,386
Prior period adjustments (Note 11)	(1,191,341)	708,413	(482,928)	-
<b>Net assets - beginning, restated</b>	<u>62,325,097</u>	<u>5,669,255</u>	<u>67,994,352</u>	<u>83,073,386</u>
<b>Net assets - ending</b>	<u>\$ 72,075,782</u>	<u>\$ 6,220,355</u>	<u>\$ 78,296,137</u>	<u>\$ 90,060,210</u>

See Accompanying Notes to the Financial Statements.



**OSAGE NATION**

**Balance Sheet - Governmental Funds**

**September 30, 2011**

	<u>General Fund</u>	<u>Dept of Housing and Urban Development</u>	<u>Dept of Health &amp; Human Services</u>	<u>Dept of Interior</u>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 36,099,841	\$ 340,861	\$ 657,428	\$ 17,030,536
Investments	25,483,411	-	-	-
Accounts receivable	105,370	67,874	1,218	6,068
Prepaid expenses	-	-	2,015	-
Due from other funds	340,655	-	351,279	1,757,242
Due from other governments	-	2,556	281,560	5,361
Receivable from related parties	4,184,199	-	-	-
<b>Total assets</b>	<b><u>\$ 66,213,476</u></b>	<b><u>\$ 411,291</u></b>	<b><u>\$ 1,293,500</u></b>	<b><u>\$ 18,799,207</u></b>
<b>Liabilities and fund balances</b>				
Current liabilities				
Accounts payable	\$ 1,231,382	\$ 92,216	\$ 116,939	\$ 1,622,687
Accrued payroll liabilities	94,682	3,494	29,484	8,422
Due to other funds	2,187,780	-	-	-
Due to related parties	167,324	-	-	-
Deferred revenue	259,639	93,739	783,120	16,481,602
<b>Total liabilities</b>	<b><u>3,940,807</u></b>	<b><u>189,449</u></b>	<b><u>929,543</u></b>	<b><u>18,112,711</u></b>
Fund balances				
Restricted	-	221,842	-	-
Committed	4,258,919	-	373,562	686,496
Unassigned	58,013,750	-	(9,605)	-
<b>Total fund balances</b>	<b><u>62,272,669</u></b>	<b><u>221,842</u></b>	<b><u>363,957</u></b>	<b><u>686,496</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 66,213,476</u></b>	<b><u>\$ 411,291</u></b>	<b><u>\$ 1,293,500</u></b>	<b><u>\$ 18,799,207</u></b>

See Accompanying Notes to the Financial Statements.

OSAGE NATION

Balance Sheet - Governmental Funds

September 30, 2011

	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ -	\$ 54,128,666
Investments	-	25,483,411
Accounts receivable	120,215	300,745
Prepaid expenses	-	2,015
Due from other funds	79,259	2,528,435
Due from other governments	508,981	798,458
Receivable from related parties	-	4,184,199
<b>Total assets</b>	<b><u>\$ 708,455</u></b>	<b><u>\$ 87,425,929</u></b>
<b>Liabilities and fund balances</b>		
Current liabilities		
Accounts payable	\$ 214,613	\$ 3,277,837
Accrued payroll liabilities	16,862	152,944
Due to other funds	340,655	2,528,435
Due to related parties	-	167,324
Deferred revenue	64,038	17,682,138
Total liabilities	<u>636,168</u>	<u>23,808,678</u>
Fund balances		
Restricted	150,726	372,568
Committed	-	5,318,977
Unassigned	(78,439)	57,925,706
Total fund balances	<u>72,287</u>	<u>63,617,251</u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 708,455</u></b>	<b><u>\$ 87,425,929</u></b>

See Accompanying Notes to the Financial Statements.

OSAGE NATION

Reconciliation of the Balance Sheet of  
Governmental Funds to the Statement of Net Assets

Year Ended September 30, 2011

<b>Total governmental fund balances</b>	\$ 63,617,251
Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,594,740
Some liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(349,579)
Internal service funds are used by the Nation to charge the costs of certain activities such as insurance to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	<u>(786,630)</u>
<b>Net assets - governmental activities, per statement of net assets</b>	<u><u>\$ 72,075,782</u></u>

See Accompanying Notes to the Financial Statements.

**OSAGE NATION**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance - Governmental Funds**

**Year Ended September 30, 2011**

	<u>General Fund</u>	<u>Dept of Housing and Urban Development</u>	<u>Dept of Health &amp; Human Services</u>
<b>Revenues</b>			
Intergovernmental	\$ 56,809	\$ 1,363,043	\$ 6,042,890
Program income	823,244	65,946	527,169
Indirect cost revenue	2,955,317	-	-
Investment income	268,078	737	-
Other income	<u>1,236,815</u>	<u>285,286</u>	<u>501,506</u>
<b>Total revenues</b>	<u>5,340,263</u>	<u>1,715,012</u>	<u>7,071,565</u>
<b>Expenditures</b>			
Current			
General Government	15,013,394	-	-
Education	-	-	1,946,815
Public Health and Welfare	166,279	-	1,639,235
Community Services	693,891	-	1,416,299
Child Care	747,443	-	1,291,637
Public Safety	823,073	10,865	197,393
Culture and Recreation	1,670,166	-	-
Economic Development	1,326,095	-	15,063
Housing Assistance	185,723	1,092,679	-
Environmental Management	268,532	-	-
Public Works	-	-	-
Indirect Costs	1,484,890	29,576	796,863
Capital Outlay	<u>48,785</u>	<u>360,050</u>	<u>-</u>
<b>Total expenditures</b>	<u>22,428,271</u>	<u>1,493,170</u>	<u>7,303,305</u>
<b>Revenues over (under) expenditures</b>	<u>(17,088,008)</u>	<u>221,842</u>	<u>(231,740)</u>
<b>Other financing sources (uses)</b>			
Transfers in/(out)	(10,468,256)	-	595,697
Distributions to related parties	(5,000,000)	-	-
Gaming distributions	<u>40,691,271</u>	<u>-</u>	<u>-</u>
<b>Total other financing sources (uses)</b>	<u>25,223,015</u>	<u>-</u>	<u>595,697</u>
<b>Net change in fund balances</b>	8,135,007	221,842	363,957
<b>Fund balances, beginning of year</b>	<u>54,137,662</u>	<u>-</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 62,272,669</u>	<u>\$ 221,842</u>	<u>\$ 363,957</u>

See Accompanying Notes to the Financial Statements.

**OSAGE NATION**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance - Governmental Funds**

**Year Ended September 30, 2011**

	<u>Dept of Interior</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Intergovernmental	\$ 11,053,402	\$ 4,979,806	\$ 23,495,950
Program income	158,858	-	1,575,217
Indirect cost revenue	-	-	2,955,317
Investment income	180,369	-	449,184
Other income	<u>472,533</u>	<u>197,798</u>	<u>2,693,938</u>
<b>Total revenues</b>	<u>11,865,162</u>	<u>5,177,604</u>	<u>31,169,606</u>
<b>Expenditures</b>			
Current			
General Government	252,714	35,787	15,301,895
Education	6,896,209	5,694	8,848,718
Public Health and Welfare	-	3,498,695	5,304,209
Community Services	262,914	268,451	2,641,555
Child Care	163,978	251,760	2,454,818
Public Safety	346,144	301,512	1,678,987
Culture and Recreation	2,102	-	1,672,268
Economic Development	-	-	1,341,158
Housing Assistance	-	-	1,278,402
Environmental Management	45,431	504,488	818,451
Public Works	9,994,715	-	9,994,715
Indirect Costs	245,791	470,494	3,027,614
Capital Outlay	<u>-</u>	<u>13,495</u>	<u>422,330</u>
<b>Total expenditures</b>	<u>18,209,998</u>	<u>5,350,376</u>	<u>54,785,120</u>
<b>Revenues over (under) expenditures</b>	<u>(6,344,836)</u>	<u>(172,772)</u>	<u>(23,615,514)</u>
<b>Other financing sources (uses)</b>			
Transfers in/(out)	7,031,332	245,059	(2,596,168)
Distributions to related parties	-	-	(5,000,000)
Gaming distributions	<u>-</u>	<u>-</u>	<u>40,691,271</u>
<b>Total other financing sources (uses)</b>	<u>7,031,332</u>	<u>245,059</u>	<u>33,095,103</u>
<b>Net change in fund balances</b>	686,496	72,287	9,479,589
<b>Fund balances, beginning of year</b>	<u>-</u>	<u>-</u>	<u>54,137,662</u>
<b>Fund balances, end of year</b>	<u>\$ 686,496</u>	<u>\$ 72,287</u>	<u>\$ 63,617,251</u>

See Accompanying Notes to the Financial Statements.

**OSAGE NATION**

**Reconciliation of the Statement of Revenues,  
Expenditures and Changes in Fund Balance of  
Governmental Funds to the Statement of Activities**

**Year Ended September 30, 2011**

<b>Net change in fund balances - governmental funds</b>	<b>\$ 9,479,589</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay	\$422,330
Depreciation expense	<u>(659,876)</u>
	(237,546)
Internal service funds are used by the Nation to charge the costs of certain activities to the individual funds. The net revenue of internal service funds applicable to governmental activities is reported with governmental activities.	756,251
Compensated absences are expensed as used in the governmental funds. However, they are expensed as earned on the statement of activities. In the current year, the amount earned exceeded the amount used.	(145,664)
Loss on disposals of capital assets are recorded as expenses in the statement of activities but are not recorded in the governmental funds because they do not use current financial resources.	<u>(101,945)</u>
<b>Change in net assets of governmental activities</b>	<b><u>\$ 9,750,685</u></b>

See Accompanying Notes to the Financial Statements.

**OSAGE NATION**

**Statement of Net Assets - Proprietary Funds**

**September 30, 2011**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
	<b>Nonmajor</b>		<b>Totals</b>	<b>Internal Service Fund</b>
	<b>Osage Properties</b>	<b>Proprietary Funds</b>		
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 114,870	\$ 952,386	\$ 1,067,256	\$ 47,253
Investment in joint venture	-	-	-	353,963
Accounts receivable	2,335	224,761	227,096	-
Prepaid expenses	-	1,370	1,370	-
Inventory	-	17,818	17,818	-
Due from other funds	204,193	-	204,193	-
Due from related parties	<u>167,324</u>	<u>-</u>	<u>167,324</u>	<u>-</u>
<b>Total current assets</b>	<u><b>488,722</b></u>	<u><b>1,196,335</b></u>	<u><b>1,685,057</b></u>	<u><b>401,216</b></u>
Land	1,512,164	715,000	2,227,164	-
Buildings and improvements	7,142,043	1,705,895	8,847,938	-
Equipment	181,476	50,601	232,077	-
Vehicles	190,273	-	190,273	-
Accumulated depreciation	<u>(4,692,408)</u>	<u>(1,629,617)</u>	<u>(6,322,025)</u>	<u>-</u>
<b>Net capital assets</b>	<u><b>4,333,548</b></u>	<u><b>841,879</b></u>	<u><b>5,175,427</b></u>	<u><b>-</b></u>
<b>Total assets</b>	<u><b>4,822,270</b></u>	<u><b>\$ 2,038,214</b></u>	<u><b>6,860,484</b></u>	<u><b>\$ 401,216</b></u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	290,264	90,991	381,255	-
Accrued payroll	3,690	8,213	11,903	-
Due to other funds	-	204,193	204,193	-
Unearned revenue	-	-	-	336,868
Current portion of compensated absences	10,576	15,609	26,185	-
Due to minor tribal members	-	3,500	3,500	-
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>850,978</u>
<b>Total current liabilities</b>	<u><b>304,530</b></u>	<u><b>322,506</b></u>	<u><b>627,036</b></u>	<u><b>\$ 1,187,846</b></u>
<b>Noncurrent liabilities</b>				
Accrued compensated absences	<u>5,288</u>	<u>7,805</u>	<u>13,093</u>	<u>-</u>
<b>Total liabilities</b>	<u><b>309,818</b></u>	<u><b>330,311</b></u>	<u><b>640,129</b></u>	<u><b>1,187,846</b></u>
<b>Net assets (deficit)</b>				
Invested in capital assets, net of related debt	4,333,548	841,879	5,175,427	-
Unrestricted	<u>178,904</u>	<u>866,024</u>	<u>1,044,928</u>	<u>(786,630)</u>
<b>Total net assets (deficit)</b>	<u><b>\$ 4,512,452</b></u>	<u><b>\$ 1,707,903</b></u>	<u><b>\$ 6,220,355</b></u>	<u><b>\$ (786,630)</b></u>

See Accompanying Notes to the Financial Statements.

**OSAGE NATION**

**Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds**

**Year Ended September 30, 2011**

	<u>Business-type Activities</u>			<u>Governmental Activities</u>
	<u>Osage Properties</u>	<u>Nonmajor Proprietary Funds</u>	<u>Totals</u>	<u>Internal Service Fund</u>
<b>Operating revenues</b>				
Intergovernmental	\$ -	\$ 106,072	\$ 106,072	\$ -
Charges for goods and services	-	-	-	7,211,199
Other revenue	<u>1,041,751</u>	<u>3,082,403</u>	<u>4,124,154</u>	<u>-</u>
<b>Total operating revenues</b>	<u>1,041,751</u>	<u>3,188,475</u>	<u>4,230,226</u>	<u>7,211,199</u>
<b>Operating expenses</b>				
Cost of merchandise sales	-	514,004	514,004	-
Payroll and benefits	557,505	1,181,855	1,739,360	-
Contractual services	97,018	204,052	301,070	-
Travel and training	50,714	39,300	90,014	-
Expendable equipment	346,103	24,494	370,597	-
Repairs and maintenance/occupancy	617,453	51,670	669,123	-
Space cost	62,038	170,260	232,298	-
Tribal member assistance	-	35,837	35,837	-
Other supplies and expenses	46,385	24,985	71,370	-
Depreciation	237,410	12,938	250,348	-
Claims incurred	-	-	-	7,880,948
Miscellaneous	59,898	21,538	81,436	-
Indirect costs	<u>227,495</u>	<u>259,041</u>	<u>486,536</u>	<u>-</u>
<b>Total operating expenses</b>	<u>2,302,019</u>	<u>2,539,974</u>	<u>4,841,993</u>	<u>7,880,948</u>
<b>Operating income (loss)</b>	<u>(1,260,268)</u>	<u>648,501</u>	<u>(611,767)</u>	<u>(669,749)</u>
Interest revenue	-	5,199	5,199	-
<b>Total non-operating revenues (expenses)</b>	<u>-</u>	<u>5,199</u>	<u>5,199</u>	<u>-</u>
<b>Income (loss) before transfers</b>	<u>(1,260,268)</u>	<u>653,700</u>	<u>(606,568)</u>	<u>(669,749)</u>
Transfers in/(out)	<u>1,751,783</u>	<u>(594,115)</u>	<u>1,157,668</u>	<u>1,426,000</u>
<b>Change in net assets</b>	<u>491,515</u>	<u>59,585</u>	<u>551,100</u>	<u>756,251</u>
<b>Total net assets, beginning of year</b>	<u>3,379,408</u>	<u>1,581,434</u>	<u>4,960,842</u>	<u>-</u>
Prior period adjustments (Note 11)	<u>641,529</u>	<u>66,884</u>	<u>708,413</u>	<u>(1,542,881)</u>
<b>Total net assets (deficit), beginning of year, as restated</b>	<u>4,020,937</u>	<u>1,648,318</u>	<u>5,669,255</u>	<u>(1,542,881)</u>
<b>Total net assets (deficit), end of year</b>	<u>\$ 4,512,452</u>	<u>\$ 1,707,903</u>	<u>\$ 6,220,355</u>	<u>\$ (786,630)</u>

See Accompanying Notes to the Financial Statements.



**OSAGE NATION**

**Statement of Cash Flows  
Proprietary Funds**

**Year Ended September 30, 2011**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
	<b>Osage Properties</b>	<b>Nonmajor Proprietary Funds</b>	<b>Totals</b>	<b>Internal Service Fund</b>
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 1,417,817	\$ 3,175,811	\$ 4,593,628	\$ 7,247,278
Cash paid to employees	(555,440)	(1,217,411)	(1,772,851)	-
Cash paid to suppliers	(1,628,545)	(1,474,836)	(3,103,381)	-
Cash paid for claims	-	-	-	(8,626,025)
<b>Net cash (used) provided by operating activities</b>	<b>(766,168)</b>	<b>483,564</b>	<b>(282,604)</b>	<b>(1,378,747)</b>
<b>Cash flows from investing activities</b>				
Interest received	-	5,199	5,199	-
<b>Net cash provided (used) by investing activities</b>	<b>-</b>	<b>5,199</b>	<b>5,199</b>	<b>-</b>
<b>Cash flows from non-capital financing activities</b>				
Transfers in	1,751,783	(594,115)	1,157,668	1,426,000
<b>Net cash provided for non-capital financing activities</b>	<b>1,751,783</b>	<b>(594,115)</b>	<b>1,157,668</b>	<b>1,426,000</b>
<b>Cash flows from capital and related financing activities</b>				
Purchase of property and equipment	(870,745)	-	(870,745)	-
<b>Net cash (used) by capital and related financing activities</b>	<b>(870,745)</b>	<b>-</b>	<b>(870,745)</b>	<b>-</b>
Net change in cash and cash equivalents	114,870	(105,352)	9,518	47,253
<b>Cash and cash equivalents, beginning of year</b>	<b>-</b>	<b>1,057,738</b>	<b>1,057,738</b>	<b>-</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 114,870</b>	<b>\$ 952,386</b>	<b>\$ 1,067,256</b>	<b>\$ 47,253</b>

See Accompanying Notes to the Financial Statements.

**OSAGE NATION**

**Statement of Cash Flows  
Proprietary Funds - Continued**

**Year Ended September 30, 2011**

	<b>Business-type Activities</b>			<b>Governmental Activities</b>
	<b>Osage Properties</b>	<b>Nonmajor Proprietary Funds</b>	<b>Totals</b>	<b>Internal Service Fund</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating (loss) income	\$ (1,260,268)	\$ 648,501	\$ (611,767)	\$ (669,749)
Adjustments to reconcile operating loss to net cash provided by operating activities				
Depreciation	237,410	12,938	250,348	-
Changes in working capital components				
(Increase) decrease in accounts receivable	40	(67,158)	(67,118)	36,079
(Increase) in inventory	-	(553)	(553)	-
(Decrease) increase in due from other funds	376,026	54,494	430,520	(313,690)
Decrease in accounts payable	(160,889)	(475,431)	(636,320)	-
Increase in compensated absences	3,827	1,317	5,144	-
Increase in due to other funds	35,621	342,224	377,845	-
Increase in unearned revenue	-	-	-	336,868
(Increase) decrease in other liabilities	2,065	(32,768)	(30,703)	(768,255)
<b>Net cash provided (used) by operating activities</b>	<b>\$ (766,168)</b>	<b>\$ 483,564</b>	<b>\$ (282,604)</b>	<b>\$ (1,378,747)</b>

See Accompanying Notes to the Financial Statements.

**OSAGE NATION**  
**Statement of Fiduciary Net Assets**  
**September 30, 2011**

	<u><b>Employee Club</b></u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ <u>8,383</u>
<b>Total assets</b>	<u>8,383</u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	<u>1,692</u>
<b>Total liabilities</b>	<u>1,692</u>
<b>Net assets</b>	
Held in trust for distributions	<u>6,691</u>
<b>Total net assets</b>	<u>\$ <u>6,691</u></u>

See Accompanying Notes to the Financial Statements.

OSAGE NATION

Statement of Changes in Fiduciary Net Assets

Year Ended September 30, 2011

	<u>Employee Club</u>
<b>Additions</b>	
Contributions	\$ <u>12,935</u>
<b>Total additions</b>	<u>12,935</u>
<b>Deductions</b>	
Distributions	<u>12,518</u>
<b>Total deductions</b>	<u>12,518</u>
<b>Change in net assets held in trust</b>	417
<b>Net assets - beginning</b>	<u>6,274</u>
<b>Net assets - ending</b>	\$ <u><u>6,691</u></u>

See Accompanying Notes to the Financial Statements.

**OSAGE NATION**

**Statement of Net Assets - Discretely Presented Component Units**

**September 30, 2011**

	<b>Osage Casinos</b>	<b>Osage LLC</b>	<b>Osage Home Health</b>	<b>Totals</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 39,236,070	\$ 2,723,011	\$ 273,820	\$ 42,232,901
Accounts receivable	1,413,618	810,752	138,933	2,363,303
Prepaid expenses	1,585,747	97,378	-	1,683,125
Inventory	462,445	-	5,000	467,445
Due from related parties	-	2,069,499	-	2,069,499
Other current assets	-	<u>1,179,422</u>	-	<u>1,179,422</u>
Total current assets	<u>42,697,880</u>	<u>6,880,062</u>	<u>417,753</u>	<u>49,995,695</u>
Net capital assets	<u>50,779,498</u>	<u>175,196</u>	<u>39,725</u>	<u>50,994,419</u>
Other long term assets	<u>-</u>	<u>11,332,563</u>	<u>-</u>	<u>11,332,563</u>
<b>Total assets</b>	<b><u>\$ 93,477,378</u></b>	<b><u>\$ 18,387,821</u></b>	<b><u>\$ 457,478</u></b>	<b><u>\$112,322,677</u></b>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	10,970,426	2,994,777	8,520	13,973,723
Accrued payroll	-	264,454	2,172	266,626
Current maturities of long-term debt	-	565,578	-	565,578
Other liabilities	-	494,909	-	494,909
Due to related parties	4,184,199	924,551	-	5,108,750
Current portion of compensated absences	-	-	119	119
Total current liabilities	<u>15,154,625</u>	<u>5,244,269</u>	<u>10,811</u>	<u>20,409,705</u>
Noncurrent liabilities				
Long-term debt	-	1,817,000	-	1,817,000
Other long-term liabilities	<u>-</u>	<u>35,762</u>	<u>-</u>	<u>35,762</u>
<b>Total liabilities</b>	<u>15,154,625</u>	<u>7,097,031</u>	<u>10,811</u>	<u>22,262,467</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	50,779,498	175,196	39,725	50,994,419
Unrestricted	27,543,255	10,724,932	406,942	38,675,129
Non-controlling interests in component units	<u>-</u>	<u>390,662</u>	<u>-</u>	<u>390,662</u>
<b>Total net assets</b>	<b><u>\$ 78,322,753</u></b>	<b><u>\$ 11,290,790</u></b>	<b><u>\$ 446,667</u></b>	<b><u>\$ 90,060,210</u></b>

See Accompanying Notes to the Financial Statements.

## OSAGE NATION

### Statement of Revenues, Expenses, and Changes in Net Assets Discretely Presented Component Units

Year Ended September 30, 2011

	<u>Osage Casinos</u>	<u>Osage LLC</u>	<u>Osage Home Health</u>	<u>Totals</u>
<b>Operating revenues</b>				
Gaming revenue	\$154,336,812	\$ -	\$ -	\$154,336,812
Merchandise sales	5,582,011	-	-	5,582,011
Food and beverage	4,901,980	-	-	4,901,980
Third party billings	-	-	467,532	467,532
Charges for goods and services	-	8,518,040	137,823	8,655,863
Other revenue	3,926,221	-	47,500	3,973,721
Less promotional allowances	(206,380)	-	-	(206,380)
<b>Total operating revenues</b>	<u>168,540,644</u>	<u>8,518,040</u>	<u>652,855</u>	<u>177,711,539</u>
<b>Operating expenses</b>				
Cost of merchandise sales	-	7,608,145	-	7,608,145
Payroll and benefits	41,233,726	1,946,687	426,686	43,607,099
Repairs and maintenance/occupancy	-	8,349	7,257	15,606
Contractual	-	637,178	285,030	922,208
Supplies/minor equipment	-	124,325	41,293	165,618
Space cost	-	-	33,390	33,390
Insurance	-	37,748	-	37,748
Travel and training	-	413,409	48,804	462,213
Advertising	9,680,913	32,344	-	9,713,257
Depreciation	11,691,853	-	17,952	11,709,805
Miscellaneous	-	-	19,405	19,405
Other operating expense	-	372,431	-	372,431
Gaming and related	28,033,359	-	-	28,033,359
General and administrative	10,317,937	-	-	10,317,937
Food and beverage	3,081,429	-	-	3,081,429
Operating expense	7,222,503	-	-	7,222,503
Retail	5,100,049	-	-	5,100,049
Entertainment	1,098,049	-	-	1,098,049
<b>Total operating expenses</b>	<u>117,459,818</u>	<u>11,180,616</u>	<u>879,817</u>	<u>129,520,251</u>
<b>Operating income (loss)</b>	<u>51,080,826</u>	<u>(2,662,576)</u>	<u>(226,962)</u>	<u>48,191,288</u>
Interest revenue	38,702	566,398	841	605,941
Deferred tax benefit	-	107,933	-	107,933
Other (expense)	(15,173)	(66,926)	-	(82,099)
Interest (expense)	(153,201)	(212,293)	-	(365,494)
<b>Income (loss) before transfers and discontinued operations</b>	50,951,154	(2,267,464)	(226,121)	48,457,569
Transfers in/(out)	(40,691,271)	5,000,000	-	(35,691,271)
Loss from discontinued operations	-	(168,226)	-	(168,226)
Transfer of assets to Osage Nation	-	(5,611,248)	-	(5,611,248)
<b>Change in net assets</b>	<u>10,259,883</u>	<u>(3,046,938)</u>	<u>(226,121)</u>	<u>6,986,824</u>
<b>Total net assets, beginning of year</b>	<u>68,062,870</u>	<u>14,337,728</u>	<u>672,788</u>	<u>83,073,386</u>
<b>Total net assets end of year</b>	<u>\$ 78,322,753</u>	<u>\$ 11,290,790</u>	<u>\$ 446,667</u>	<u>\$ 90,060,210</u>

See Accompanying Notes to the Financial Statements.

## Notes to the Financial Statements

## OSAGE NATION

### Notes to the Financial Statements

Year Ended September 30, 2011

#### **Note 1 - Summary of Significant Accounting Policies**

##### **A. Organization**

The Osage Nation ("the Nation"), formerly known as the Osage Tribe of Indians of Oklahoma, is composed of the descendants of persons listed on the 1906 Osage Allotment Roll. There are currently over 10,000 tribal members. The Tribe is located in Osage County in North Central Oklahoma on 2,200 acres and includes the cities of Hominy, Fairfax and Pawhuska, with the main Tribal offices in Pawhuska, Oklahoma.

Effective March 11, 2006, the Osage Nation of Oklahoma adopted a new Constitution, duly ratified by a vote of the Osage People. The Osage Nation Congress and Executive Officers assumed operational control of the entity formerly known as the Osage Tribe of Indians of Oklahoma on July 1, 2006. The governing body of the Osage Nation is vested in three (3) separate branches: the Legislative, the Executive and the Judicial. The Legislative branch consists of twelve (12) elected representatives elected at large. The Executive branch provides the executive power of the Osage Nation and consists of a Principal Chief and an Assistant Principal Chief. The Executive branch includes a Department of the Treasury. The Judicial branch provides the judicial powers of the Osage Nation and these powers are vested in one Supreme Court, a lower Trial Court and in such inferior Courts as the Osage Nation Congress may ordain and establish. The voting members of the Tribe elect the Osage Nation Congress representatives every four years. The Osage Nation Congress' primary responsibility is to draft the laws for the Nation.

The accompanying basic financial statements reflect the financial position and results of operations of the activities over which the Osage Nation exercises fiscal and administrative control. The financial statements do not include the financial position and the results of operations of individual members of the Osage Nation, or various non-tribal entities that are independent of the Osage Nation Congress and over which the Tribe does not exercise operating control.

##### **B. Reporting Entity**

All the entities that are not legally separate are part of the Osage Nation's primary government for financial reporting purposes. The legal entity includes:

- All governmental offices and departments of the Osage Nation
- Enterprises of the Osage Nation, including Osage Casinos, Osage LLC, and Osage Home Health.

In evaluating how to define the Osage Nation, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic, but not the only criterion for including a potential component unit with the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority and the designation of management.



## OSAGE NATION

### Notes to the Financial Statements

Year Ended September 30, 2011

#### **Note 1 - Summary of Significant Accounting Policies - Continued**

##### **B. Reporting Entity - Continued**

For each entity determined to be a component unit of the Osage Nation, an additional determination is made regarding the method of combining component unit data with data of the primary government. The two methods of combination are "discrete presentation" and "blending". The discrete presentation has the component unit data presented in a separate column. The blended component unit merges or aggregates with the primary government.

The Nation has three discretely presented component units, Osage Casinos, Osage LLC, and Osage Home Health:

*Osage Casinos* - Osage Casinos operates casinos in Tulsa, Sand Spring, Hominy, Pawhuska, Bartlesville, Ponca City, and Skiatook, Oklahoma. Osage Casinos also operates the Osage Travel Plaza and maintains a Central Office for supporting the operations.

*Osage LLC* - Osage LLC ("Osage") was formed on April 14, 2008 as a single member LLC with the Osage Nation as its sole member to manage its business activities separate from the affairs of Tribal Government. In 2009, the Osage Nation contributed a grocery store in Fairfax, Oklahoma, a gift shop and a technology services business in Pawhuska, Oklahoma, and a 110 acre commercial and industrial development property ("airpark") in Tulsa, Oklahoma. In 2011, the assets of the airpark were transferred back to the Osage Nation. The net assets and operation of the airpark, grocery store and gift shop are reflected as discontinued operations within these financial statements.

*Osage Home Health* - Osage Home Health operates the Home Health services for the Osage Nation.

The accompanying financial statements include Osage Casinos, and Osage LLC, component units which have year ends of September 30th, and December 31st respectively. Osage Casinos was audited as of September 30, 2011 in accordance with auditing standards generally accepted in the United States of America. Osage LLC was audited as of December 31, 2011 in accordance with auditing standards generally accepted in the United States of America. Each of the component units has a separate audit report, available upon request from the Treasury Department.

The accompanying financial statements include Osage Home Health, as of September 30, 2011, a component unit which was audited with the primary government.

The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB statements and interpretations constitute generally accepted accounting principles (GAAP) for governments, including Indian Tribes.

##### **C. Basis of Presentation Financial Statements**

The basic financial statements of the Osage Nation include the government-wide and the fund financial statements. The focus is on the Nation as a whole in the government-wide financial statements, while reporting additional and detailed information about the Nation's major governmental and business-type activities in the fund financial statements.

# OSAGE NATION

## Notes to the Financial Statements

Year Ended September 30, 2011

### Note 1 - Summary of Significant Accounting Policies - Continued

#### C. Basis of Presentation - Continued

##### Government-Wide Financial Statements

The government-wide statement of net assets and statement of activities display information about the Nation's primary government. These statements include the financial activities of the overall Nation. Eliminations have been made to minimize the double counting of internal activities.

Governmental activities are financed primarily through sales and excise taxes, and distributions from the Osage Casinos ("the Casinos"). During the year ended September 30, 2011, distributions from the Casinos amounted to \$40,691,271.

The government-wide statement of activities reflects the cost of programs and functions (community services, environmental management, etc.) reduced by directly associated revenues (program income, operating and capital grants) to arrive at the net revenue or expense for each program and function. Net program revenue or expense for governmental activities are then adjusted for general revenues and transfers to determine the change in net assets for the year. Indirect expenses such as support services and administration incurred in the general government and other functions/activities are not allocated to programs/functions that they may benefit. When both restricted and unrestricted resources are available for use, it is the Nation's policy to use restricted resources first, then unrestricted resources as they are needed.

The Nation reports the following component units within its government-wide financial statements: Osage Casinos, Osage LLC, and Osage Home Health.

##### Fund Financial Statements

The fund financial statements provide information about the Nation's funds. Separate statements for each fund category -- governmental, proprietary, and fiduciary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

##### Governmental Fund Types

*General Fund* - The Nation maintains several departmental general funds. At times, other special accounts are maintained for specific purposes. All such funds account for general financial resources and are combined for reporting purposes because of the similarity of the funds.

*Special Revenue Funds* - These funds are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory requirements or administrative action. These accounts cover a broad range of federal award programs, as well as state, county and foundation programs.

## OSAGE NATION

### Notes to the Financial Statements

Year Ended September 30, 2011

#### Note 1 - Summary of Significant Accounting Policies - Continued

##### **C. Basis of Presentation - Continued**

###### **The Nation reports the following major governmental funds:**

*General Fund* - The general fund is the Nation's primary operating fund. It accounts for all governmental financial resources, except those required to be accounted for in another fund.

*Department of Housing and Urban Development* - This fund accounts for the resources received by the Nation to provide housing programs to tribal members.

*Department of Health and Human Services* - This fund accounts for the resources received by the Nation to provide health and welfare programs to tribal members.

*Department of Interior* - This fund accounts for the resources received by the Nation to provide social service and general assistance programs to tribal members.

###### Proprietary Fund Types

*Internal Service Fund* - This fund is used to account for health insurance for employees provided to other departments and entities of the Osage Nation on a cost reimbursement basis.

###### **The Nation reports the following major enterprise fund:**

*Osage Properties* - Osage Properties provides janitorial and maintenance services for the Nation as well as accounting for land acquisitions.

###### **The Nation reports the following fiduciary fund:**

Fiduciary funds are used to account for assets held by the Nation as a trustee or agent and that cannot be used to support the government's own programs. The Nation uses the fiduciary fund to account for the activity of the employee club program which provides social and recreational activities for the employees of the Nation.

###### **The Nation reports the following major component units:**

*Osage Casinos* - Osage Casinos operates casinos in Tulsa, Sand Spring, Hominy, Pawhuska, Bartlesville, Ponca City, and Skiatook, Oklahoma. Osage Casinos also operates the Osage Travel Plaza and maintains a Central Office for supporting the operations.

*Osage LLC* - Osage LLC operates the economic development activities of the Osage Nation.

*Osage Home Health* - Osage Home Health operates the home health services for the Osage Nation.

# OSAGE NATION

## Notes to the Financial Statements

Year Ended September 30, 2011

### Note 1 - Summary of Significant Accounting Policies - Continued

#### **D. Basis of Accounting and Measurement Focus**

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method revenue is recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Nation gives (or receives) value without directly receiving (or giving) equal value in exchange, include interest, grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which eligibility requirements have been satisfied.

Proprietary fund operating revenue results from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses of proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting these definitions are reported as non-operating revenue and expenses.

Governmental funds are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method revenue is recognized when measurable and available. The Nation considers all revenue reported in the governmental funds to be available if the revenue is collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources and uses.

Discretely present component units are reported using the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which the liability is incurred. Osage LLC recognized revenue on service contracts ratably over applicable contract period or as services are performed. Amounts billed and collected before the services are performed are included in deferred revenues.

The financial statements of the Nation conform with accounting principles generally accepted in the United States of America (GAAP) applicable to government units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB statements and interpretations constitute GAAP for governments, including Indian Tribes. As permitted by GASB Statement 20, the Nation has elected not to implement pronouncements of the Financial Accounting Standards Board (FASB) issued subsequent to November 30, 1989, in the accounting for business-type activities and enterprise funds.

#### **E. Cash and Cash Equivalents**

The Nation considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

**OSAGE NATION**

**Notes to the Financial Statements**

**Year Ended September 30, 2011**

**Note 1 - Summary of Significant Accounting Policies - Continued**

**F. Inventory**

**Business-type Activities and Proprietary funds:**

Inventories are valued at average cost. Cost is determined using the first-in, first-out (FIFO) average cost method.

**Discretely presented component units:**

Osage Casinos inventories are valued at the lower of cost or market and consist primarily of tobacco, food, and beverages. Cost is determined by the first-in, first-out method.

**G. Investments**

Investments are recorded at fair value. Fair value is determined by the reported market value of securities and mutual funds trading on national exchanges.

**H. Capital Assets and Depreciation**

Capital assets are recorded at cost where historical records are available and at estimated cost where no historical records exist. Contributed assets, including those from the federal government, are recorded at estimated fair value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred. Reservation lands and related resources (such as timber stands and other natural resources) are not capitalized because there is not a historical cost associated with these assets.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are as follows:

**Governmental Activities and Business-type Activities:**

<u>Asset Category</u>	<u>Capitalization Threshold</u>	<u>Years</u>
Buildings and improvements	\$10,000	25
Machinery and equipment	10,000	10
Vehicles and mobile equipment	10,000	5

Depreciation is provided using the straight-line method over estimated useful lives.

**Discretely Presented Component Units:**

<u>Asset Category</u>	<u>Capitalization Threshold</u>	<u>Years</u>
Buildings and leasehold improvements	\$5,000	20-30
Land improvements	5,000	10-15
Furniture and fixtures	5,000	5-7
Gaming and other equipment	5,000	3-5
Vehicles and mobile equipment	5,000	5

**I. Internal Balances**

During the course of operations, transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the accompanying fund financial statements, and are eliminated in the

OSAGE NATION

Notes to the Financial Statements

Year Ended September 30, 2011

**Note 1 - Summary of Significant Accounting Policies - Continued**

**H. Internal Balances - Continued**

Nation-wide financial statements.

Interfund transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

**J. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates include estimated useful lives of capital assets.

**K. Compensated Absences**

Employees accrue vested annual vacation leave at a variable rate based on years of service. It is the Nation's policy to liquidate unpaid annual vacation leave at September 30th from future sources rather than currently available expendable resources. Accordingly, governmental funds recognize annual leave when it is paid. Compensated absences liability at September 30, 2011 totaled \$349,579 for governmental activities. This amount is recorded in the government-wide Statement of Net Assets and is a reconciling item between the government-wide Statement of Net Assets and the governmental activities Statement of Net Assets. Employees accrue vested annual sick leave at the rate of (4) four hours per pay period. However, sick leave credit is not paid to an employee upon separation. Therefore, sick leave has no monetary value for accrual purposes.

Accrual policies for compensated absences are as follows:

<u>Benefit Type</u>	<u>Tenure/years</u>	<u>Hours per pay period</u>
Vacation	0-3	4
Vacation	3-15	6
Vacation	15 or more	8

# OSAGE NATION

## Notes to the Financial Statements

Year Ended September 30, 2011

### Note 1 - Summary of Significant Accounting Policies - Continued

#### L. Federal and State Income Taxes

The Osage Nation, as a federally recognized sovereign government, is exempt from federal and state income taxes. As such, no income taxes have been provided for in the accompanying financial statements.

#### **Discretely presented component units:**

Osage LLC is considered to be part of the Osage Nation, and it not liable for federal and state income taxes. However, in 2011, Osage LLC acquired a taxable entity and as such has recognized a deferred tax asset for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax bases, using enacted tax rates to be in effect when the differences are expected to reverse. Deferred taxes are recognized for operating issues that are available to offset future income taxes. A valuation allowance is recorded to reduce deferred tax assets to an amount that will more than likely not be recognized.

#### M. Indirect Costs

Indirect costs represent costs of administration and operation, including accounting costs, which cannot be readily allocated to individual programs. These costs are paid from the indirect cost pool in the general fund and allocated to applicable programs, based on a negotiated indirect cost agreement. A rate of 17.64% was charged to all contributing programs based on salaries and related fringe benefit costs. This rate was negotiated with the National Business Center, U.S. Department of the Interior for fiscal year 2010.

#### N. Accounts Receivable

The Nation records normal business receivables, as well as loans to Tribal members and travel advances. No allowance for doubtful accounts has been established as the Nation anticipates collecting all material amounts.

#### O. Fund Equity

Beginning with fiscal year 2011, the financial statements have been presented in accordance with the new reporting model required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of the Statement is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB Statement No. 54 provides for two major types of fund balances, which are nonspendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact, such as inventories, and prepaid amounts.

In addition to the nonspendable fund balance, GASB Statement No. 54 has provided a hierarchy of spendable fund balances based on a hierarchy of spending constraints.

**Restricted** - fund balances that are restricted for specific purposes stipulated by external parties, constitutional provisions, or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

# OSAGE NATION

## Notes to the Financial Statements

Year Ended September 30, 2011

### Note 1 - Summary of Significant Accounting Policies - Continued

#### O. Fund Equity - Continued

**Committed** - fund balances that can only be used for the specific purposes determined by a formal action of the Nation's highest level of decision-making authority, the Osage Nation Congress. Commitments may be changed or lifted only by the Nation taking the same formal action that imposed the constraint originally (for example a resolution or ordinance).

**Assigned** - fund balances that are intended to be used by the Nation for specific purposes that are neither restricted nor committed. Intent is expressed by (a) Treasurer (b) an appointed body or official to which the Nation has delegated the authority to assign, modify, or rescind amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted or committed. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the Nation itself.

**Unassigned** - fund balances of the general fund that is not constrained for any particular purposes. It is also the residual classification for all negative fund balances.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

#### **Net Assets**

In the government-wide financial statements, net assets are classified in the following categories:

**Invested in Capital Assets, Net of Related Debt** - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

**Restricted Net Assets** - this amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation, or constitutional provisions.

**Unrestricted Net Assets** - this amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."



**OSAGE NATION**

**Notes to the Financial Statements**

**Year Ended September 30, 2011**

**Note 1 - Summary of Significant Accounting Policies - Continued**

**P. Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Accounts and loans receivable, interfund receivables and payables, accounts payable, and accrued liabilities: The carrying amount approximates fair value because of the short maturity of those instruments.

**Q. Due from other Governments**

Due from other governments represent amounts that have been expended by the programs but have not been reimbursed by the respective funding agency. Total amounts due from other governments as of September 30, 2011 amounted to \$798,458.

**R. Deferred Revenue/Unearned Revenue**

Deferred revenue represents amounts that have been received by the programs from the respective funding agencies that have not yet been expended for the intended purpose. Deferred revenue as of September 30, 2011 amounted to \$17,682,138. Unearned revenue represents a timing difference for amounts received in advance from other entites. Unearned revenue as of September 30, 2011 amounted to \$336,868.

**S. Reclassifications**

Certain amounts in the prior periods have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net assets.

**Note 2 - Cash and Cash Equivalents**

The Nation reports the following deposits as of September 30, 2011:

**Governmental activities and Fiduciary funds:**

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 17,674,941	\$ 20,526,260
Time and savings accounts	35,981,487	35,981,324
Money market funds	522,628	522,628
Cash on hand	5,246	-
Total	<u>\$ 54,184,302</u>	<u>\$ 57,030,212</u>

**Business-type activities:**

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 701,464	\$ 956,443
Time and savings accounts	365,440	365,440
Cash on hand	352	-
Total	<u>\$ 1,067,256</u>	<u>\$ 1,321,883</u>

**OSAGE NATION**

**Notes to the Financial Statements**

**Year Ended September 30, 2011**

**Note 2 - Cash and Cash Equivalents - Continued**

**Discretely presented component units:**

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 28,909,617	\$ 26,619,446
Cash on hand	<u>13,323,284</u>	<u>-</u>
Total	<u>\$ 42,232,901</u>	<u>\$ 26,619,446</u>

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the Nation's deposits may not be returned to it. Interest-bearing bank accounts held in financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC"), up to \$250,000 for each financial institution. All funds in noninterest-bearing accounts are insured in full by the FDIC through December 31, 2012.

**Governmental activities, fiduciary funds and business-type activities:**

Of the bank balance, \$253,520 was uncollateralized and uninsured as of September 30, 2011.

**Discretely presented component units:**

At December 31, 2011, \$99,342 was uncollateralized and uninsured for Osage LLC.

**Note 3 - Investments**

**Governmental activities:**

The Nation reports the following investments as of September 30, 2011:

	<u>Fair Value</u>
Money Market Mutual Funds	\$24,983,385
Land	<u>500,026</u>
Total	<u>\$25,483,411</u>

**Credit Risk**

The Nation has no investment policy which limits its investment choices with regard to credit rating. As of September 30, 2011, the following investments had the associated credit risk:

	<u>Fair Value</u>	<u>AAA/Aaa</u>
Money Market Mutual Funds	<u>\$24,983,385</u>	<u>\$24,983,385</u>

**Discretely presented component units:**

Long-term notes receivable and other debt securities	\$ 2,221,968	
Equity method investments	767,724	
Cost method investments	<u>1,800,000</u>	
Total	<u>\$ 4,789,692</u>	

**OSAGE NATION**

**Notes to the Financial Statements**

**Year Ended September 30, 2011**

**Note 4 - Interfund Activity**

Interfund balances are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Total</u>
General Fund	Various Non-Major Funds	Cash advances	\$ 340,655
DHHS	General fund	Program appropriations	\$ 351,279
DOI	General fund	Program appropriations	\$ 1,757,242
Various non-major funds	General fund	Program appropriations	\$ 79,259
Osage Properties	Various non-major enterprise funds	Program appropriations	\$ 204,193

All amounts will be repaid within a year.

Transfers are summarized as follows:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Purpose</u>	<u>Total</u>
General fund	Department of Health and Human Services	Program appropriations	\$ 595,697
General fund	Department of Interior	Program appropriations	\$ 7,031,332
General fund	Non-major funds	Program appropriations	\$ 245,059
General fund	Osage Properties	Program appropriations	\$ 1,751,783
Nonmajor Enterprise fund	General fund	Program appropriations	\$ 594,115
General fund	Internal service fund	Program appropriations	\$ 1,426,000
General fund	Fiduciary fund	Program appropriations	\$ 12,500
General fund	Osage Properties	Program appropriations	\$ 1,751,783
Nonmajor Enterprise funds	General fund	Program appropriations	\$ 594,115

The principal purposes of the transfers are to fund Tribal activities and to manage cash flow. Osage Casinos transfer their profits to the Osage Nation. The General fund transfers cash and other funds as determined by resolution or pays expenses directly from this fund per resolution orders. Any tribal cash not obligated at fiscal year end is returned to the General fund.

**OSAGE NATION**

**Notes to the Financial Statements**

**Year Ended September 30, 2011**

**Note 5 - Capital Assets**

Capital assets activity for the year ended September 30, 2011, is summarized as follows:

**Governmental activities:**

	Beginning Balance <u>10/1/2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Adjustments</u>	Ending Balance <u>9/30/2011</u>
<b>Capital assets not being depreciated</b>					
Land	\$ 3,041,236	\$ -	\$ -	\$ (500,026)	\$ 2,541,210
<b>Capital assets being depreciated</b>					
Buildings	9,301,123	360,050	(251,700)	-	9,409,473
Equipment	579,925	18,604	-	-	598,529
Vehicles	<u>2,287,836</u>	<u>43,676</u>	<u>(29,829)</u>	<u>-</u>	<u>2,301,683</u>
<b>Total capital assets being depreciated</b>	<u>12,168,884</u>	<u>422,330</u>	<u>(281,529)</u>	<u>-</u>	<u>12,309,685</u>
<b>Less accumulated depreciation</b>					
Buildings	(2,856,523)	(363,025)	138,255	-	(3,081,293)
Equipment	(262,395)	(48,223)	-	-	(310,618)
Vehicles	<u>(1,656,945)</u>	<u>(248,628)</u>	<u>41,329</u>	<u>-</u>	<u>(1,864,244)</u>
<b>Total accumulated depreciation</b>	<u>(4,775,863)</u>	<u>(659,876)</u>	<u>179,584</u>	<u>-</u>	<u>(5,256,155)</u>
<b>Net capital assets</b>	<u>\$10,434,257</u>	<u>\$ (237,546)</u>	<u>\$ (101,945)</u>	<u>\$ (500,026)</u>	<u>\$ 9,594,740</u>

Depreciation expense of \$659,876 was unallocated on the statement of activities.

Beginning balances on depreciable capital assets have been restated (See Note 11). The adjustment to land as of September 30, 2011 is a reclassification from an asset to an investment.

**OSAGE NATION**

**Notes to the Financial Statements**

**Year Ended September 30, 2011**

**Note 5- Capital Assets - Continued**

**Business-type activities:**

	Beginning Balance <u>10/1/2010</u>	<u>Additions</u>	<u>Disposals</u>	Ending Balance <u>9/30/2011</u>
<b>Capital assets not being depreciated</b>				
Land	\$ 1,921,164	\$ 306,000	\$ -	\$ 2,227,164
<b>Capital assets being depreciated</b>				
Buildings and improvements	8,152,147	695,791	-	8,847,938
Equipment	232,077	-	-	232,077
Vehicles	<u>213,539</u>	<u>-</u>	<u>(23,266)</u>	<u>190,273</u>
<b>Total capital assets being depreciated</b>	<u>8,597,763</u>	<u>695,791</u>	<u>(23,266)</u>	<u>9,270,288</u>
<b>Less accumulated depreciation</b>				
Buildings and improvements	(5,852,997)	(208,034)	-	(6,061,031)
Equipment	(88,063)	(20,486)	-	(108,549)
Vehicles	<u>(153,883)</u>	<u>(21,828)</u>	<u>23,266</u>	<u>(152,445)</u>
<b>Total accumulated depreciation</b>	<u>(6,094,943)</u>	<u>(250,348)</u>	<u>23,266</u>	<u>(6,322,025)</u>
<b>Net capital assets</b>	<u>\$ 4,423,984</u>	<u>\$ 751,443</u>	<u>\$ -</u>	<u>\$ 5,175,427</u>

Beginning balances on depreciable capital assets have been restated (See Note 11).

**OSAGE NATION**

**Notes to the Financial Statements**

**Year Ended September 30, 2011**

**Note 5- Capital Assets - Continued**

**Discretely presented component units:**

	Beginning Balance <u>10/1/2010</u>	Additions	Disposals	Transfers	Ending Balance <u>9/30/2011</u>
<b>Capital assets not being depreciated</b>					
Land	\$ 1,519,745	\$ 312,338	\$ -	\$ -	\$ 1,832,083
Construction in progress	<u>667,189</u>	<u>1,339,857</u>	<u>-</u>	<u>(391,023)</u>	<u>1,616,023</u>
<b>Total capital assets being depreciated</b>	<u>2,186,934</u>	<u>1,652,195</u>	<u>-</u>	<u>(391,023)</u>	<u>3,448,106</u>
<b>Capital assets being depreciated</b>					
Land improvements	4,768,317	7,200	-	54,354	4,829,871
Buildings and improvements	31,626,155	135,701	-	59,042	31,820,898
Equipment	40,136,443	8,583,368	(1,013,865)	272,637	47,978,583
Furniture and fixtures	2,134,633	146,293	-	4,990	2,285,916
Vehicles	<u>717,694</u>	<u>182,417</u>	<u>-</u>	<u>-</u>	<u>900,111</u>
<b>Total capital assets being depreciated</b>	<u>79,383,242</u>	<u>9,054,979</u>	<u>(1,013,865)</u>	<u>391,023</u>	<u>87,815,379</u>
<b>Less accumulated depreciation</b>					
Land improvements	(1,682,080)	(390,835)	-	-	(2,072,915)
Buildings and improvements	(7,787,619)	(1,792,949)	-	-	(9,580,568)
Equipment	(18,113,244)	(9,291,959)	998,692	-	(26,406,511)
Furniture and fixtures	(1,557,434)	(148,356)	-	-	(1,705,790)
Vehicles	<u>(406,546)</u>	<u>(96,736)</u>	<u>-</u>	<u>-</u>	<u>(503,282)</u>
<b>Total accumulated depreciation</b>	<u>(29,546,923)</u>	<u>(11,720,835)</u>	<u>998,692</u>	<u>-</u>	<u>(40,269,066)</u>
<b>Net capital assets</b>	<u>\$ 51,356,064</u>	<u>\$ (2,353,518)</u>	<u>\$ (15,173)</u>	<u>\$ 391,023</u>	<u>\$ 50,994,419</u>

**Note 6 - Other Assets**

**Discretely presented component units:**

Osage LLC had other long-term assets as follows:

Investments	\$ 4,789,692
Property held for sale	374,400
Deferred tax asset	679,913
Other assets	53,462
Goodwill	4,553,209
Intangible assets, net	<u>881,887</u>
<b>Total other assets</b>	<u>\$ 11,332,563</u>

**OSAGE NATION**

**Notes to the Financial Statements**

**Year Ended September 30, 2011**

**Note 7 - Business Acquisitions**

**Discretely presented component units:**

Osage LLC purchased 70% of American Video Security, LLC ("AVS") on January 1, 2011 for a total purchase price of \$2,055,000. Osage LLC paid \$1,500,000 at closing. Included in the purchase price was \$555,000 for the estimated fair value of amounts due to the seller of AVS contingent upon AVS meeting certain conditions over a period of 10 years. At December 31, 2011, Osage LLC had a current liability of \$406,000 and a long-term liability of \$149,000 related to such contingent payments. AVS provides system design, installation, sales and service of video surveillance, digital video recording, and access control systems.

Osage LLC purchased 100% of Echota on October 18, 2011, for a total purchase price of \$4,238,196. Osage LLC paid \$2,500,196 at closing. Included in the purchase price was \$1,738,000 for the estimated fair value of amounts due to the seller of Echota contingent upon Echota meeting certain, agreed upon sales goalsover a period of 10 years. At December 31, 2011, Osage LLC had a current liability of \$70,000 and a long-term liability of \$1,668,000 related to such contingent payments. Echota provides training, information technology, engineering and site support.

**Note 8 - Noncurrent Liabilities**

Changes in compensated absences and long-term debt for the year ended September 30, 2011, were as follows:

	<u>Balance</u> <u>10/1/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>9/30/2011</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<b>Governmental activities</b>					
Compensated absences	\$ <u>203,915</u>	\$ <u>347,859</u>	\$ <u>(202,195)</u>	\$ <u>349,579</u>	\$ <u>233,170</u>
<b>Business-type activities</b>					
Compensated absences	\$ <u>34,252</u>	\$ <u>37,858</u>	\$ <u>(32,832)</u>	\$ <u>39,278</u>	\$ <u>26,185</u>
<b>Business-type long term liabilities</b>	\$ <u>34,252</u>	\$ <u>37,858</u>	\$ <u>(32,832)</u>	\$ <u>39,278</u>	\$ <u>26,185</u>
<b>Discretely presented component units</b>					
Compensated absences	\$ 119	\$ -	\$ -	\$ 119	\$ 119
Long-term debt	4,611,541		(4,611,541)		
Contingent acquisition liabilities	<u>-</u>	<u>2,293,000</u>	<u>-</u>	<u>2,293,000</u>	<u>476,000</u>
<b>Discretely presented component units long term liabilities</b>	\$ <u>4,611,660</u>	\$ <u>2,293,000</u>	\$ <u>(4,611,541)</u>	\$ <u>2,293,119</u>	\$ <u>476,119</u>

Beginning of year compensated absences have been restated due to a reclassification from long-term to current liabilities for tribal programs.

**OSAGE NATION**

**Notes to the Financial Statements**

**Year Ended September 30, 2011**

**Note 9 - Self-Insurance**

The Nation is self-insured, up to certain limits, for employee group health claims. The Nation has purchased stop-loss insurance, which will reimburse the Nation for individual claims in excess of \$100,000 annually (with the exception of one individual who has an additional \$25,000 specific deductible) or aggregate claims exceeding \$8,571,000. The insurance contract runs November 1 through October 31 of the next fiscal year. Operations are charged with the cost of claims reported less stop-loss reimbursement received. No claims were eligible for aggregate reimbursement under the program for the fiscal year ended September 30, 2011.

Component units of the Nation, also participate in the employee health benefit plan. Each component unit funds the cost of coverage for the respective employees. The Nation bills the component units for claims as the claims are paid.

The Nation's reported employee health claims liability of \$850,978 at September 30, 2011, has been recorded in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. This liability includes all open claims for the health plan.

The claims liability has been estimated based upon open claims at September 30, 2011. The Nation believes that this method of estimating the liability is sufficient to determine the amount of open claims and to provide for claims that have been incurred but not reported (IBNR). Changes in the reported liability follow:

	Balance 10/1/2010	Current- Year Claims and Changes in Estimates	Claim Payments	Balance 9/30/2011
<b><u>Governmental activities:</u></b>				
Health claims liability	\$ <u>1,619,233</u>	\$ <u>7,857,770</u>	\$ <u>(8,626,025)</u>	\$ <u>850,978</u>

**Note 10 - Risk Management**

The Nation faces a considerable number of risks of loss, including:

- a) damage to and destruction and loss of property and contents;
- b) environmental damage;
- c) workers' compensation (i.e., employee injuries);
- d) tort actions; and,
- e) errors and omissions.

A variety of methods is used to provide insurance for these risks. Commercial insurance policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, tort actions, and errors and omissions. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Given the lack of coverage available, the Nation has no coverage for potential losses due to environmental damages. The amounts of any potential future losses are unknown.



**OSAGE NATION**

**Notes to the Financial Statements**

**Year Ended September 30, 2011**

**Note 11 - Prior Period Adjustments**

During the current year, management determined that certain assets and liabilities were not properly recorded as of September 30, 2010. The following is a summary of the corrections made:

	<u>Internal Service fund</u>	<u>Governmental Activities</u>
Beginning fund balance/net assets, as previously reported	\$ -	\$ 63,516,438
Correction of errors:		
Overstated cash	(313,690)	(313,690)
Understated accounts receivable	390,042	390,042
Understated incurred but not reported claims liability	(1,619,233)	(1,619,233)
Understated capital assets	-	<u>351,540</u>
Beginning net assets, as restated	<u>\$ (1,542,881)</u>	<u>\$ 62,325,097</u>

Health claims incurred but not reported (IBNR) claims liability - The Nation is self-funded for health claims benefits and accounts for the activity in the Health Benefits funds. The liability for IBNRs has not been reported in the previous year's financial statements. An adjustment has been made to the estimated IBNRs for the fiscal year ended September 30, 2010.

Assets, liabilities and net assets excluded in prior year - In addition to the above prior period adjustment, the September 30, 2010 Health Claims fund's assets, liabilities, net assets/fund balances, and changes in net assets/fund balances were excluded from the September 30, 2010 financial statements. This prior period adjustment corrects that omission.

Capital assets net of accumulated depreciation - As a result of reviewing capital assets inventory for September 30, 2011, it was discovered that several assets and the related accumulated depreciation had not been recorded as of September 30, 2010 and had not been reported in the September 30, 2010 audited financial statements. This prior period adjustment records and reports those capital assets and accumulated depreciation.

**Business-type Activities and Discretely Presented Component Units**

	<u>Business-type Activities</u>		
	<u>Osage Properties</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total</u>
Beginning fund balance/net assets, as previously reported	\$ 3,379,408	\$ 1,581,434	\$ 4,960,842
Correction of errors:			
Understated capital assets	27,552	-	27,552
Overstated accounts payable	<u>613,977</u>	<u>66,884</u>	<u>680,861</u>
Beginning net assets, as restated	<u>\$ 4,020,937</u>	<u>\$ 1,648,318</u>	<u>\$ 5,669,255</u>

Assets, liabilities and net assets recorded as business-type in prior year - The September 30, 2010 Home Health Care fund's assets, liabilities, net assets/fund balances, and changes in net assets/fund balances were reported with business-type activities (blended component unit). In 2011, the fund is more accurately presented as a discretely presented component unit. This prior period adjustment reflects that change.

Capital assets net of accumulated depreciation - As a result of reviewing capital assets inventory

OSAGE NATION

Notes to the Financial Statements

Year Ended September 30, 2011

**Note 11 - Prior Period Adjustments - Continued**

for September 30, 2011, it was discovered that several assets and the related accumulated depreciation had not been recorded as of September 30, 2010 and had not been reported in the September 30, 2010 audited financial statements. This prior period adjustment records and reports those capital assets and accumulated depreciation.

**Note 12 - Deficit Fund Balance**

The following individual funds had deficit fund balances at September 30, 2011:

General fund:

Tribal Court	\$	5,812
Tribal Law Enforcement		19,047
Tribal Housing		17,374
Legislative		3,827
Cultural		3,589
Treasury Department		294
Office of Fiscal and Performance		417
Gaming Commission		19,054
Museum		684
Attorney General		2,273
Communications		473
Election Board		432
ENR Services		1,645
Historic Prevention		1,601
Language		1,467
Osage News		1,537
TASC		2,572
Claims		<u>511,429</u>
Total general fund deficit fund balances:	\$	<u><u>593,527</u></u>

Department of Health and Human Services

Child Support Benefits	\$	579
Headstart Administration		59
Target Capacity		45
Alcohol & Substance Abuse/Prevention		<u>8,922</u>
Total Department of Health and Human Services deficit fund balance:	\$	<u><u>9,605</u></u>

Nonmajor funds:

Farmers Market	\$	4,370
Trans Scenic Byway		10,031
TANF		<u>64,038</u>
Total nonmajor funds deficit fund balances:	\$	<u><u>78,439</u></u>

**OSAGE NATION**

**Notes to the Financial Statements**

**Year Ended September 30, 2011**

**Note 13 - Fund Equity**

The Nation has classified its fund balances with the following hierarchy:

	<u>General Fund</u>	<u>Dept of HUD</u>	<u>Dept of HHS</u>	<u>Dept of Interior</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Spendable:						
Restricted						
Restricted for purpose specified in the grant agreement	\$ <u>-</u>	\$ <u>221,842</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>150,726</u>	\$ <u>372,568</u>
Committed						
Program purposes	\$ -	\$ -	\$ 373,562	\$ 686,496	\$ -	\$ 1,060,058
Targeted Services						
Support grant	275,000	-	-	-	-	275,000
Health benefits	3,458,919	-	-	-	-	3,458,919
Osage War Memorial	500,000	-	-	-	-	500,000
Regional gathering	25,000	-	-	-	-	25,000
Total committed	\$ <u>4,258,919</u>	\$ <u>-</u>	\$ <u>373,562</u>	\$ <u>686,496</u>	\$ <u>-</u>	\$ <u>5,318,977</u>
Unassigned						
General fund	\$58,013,750	\$ -	\$ -	\$ -	\$ -	\$ 58,013,750
Special revenue funds	-	-	(9,605)	-	(78,439)	(88,044)
Total unassigned	\$ <u>58,013,750</u>	\$ <u>-</u>	\$ <u>(9,605)</u>	\$ <u>-</u>	\$ <u>(78,439)</u>	\$ <u>57,925,706</u>

The Nation currently has no funds classified as Nonspendable or Assigned.

**Note 14 - Retirement Plan**

**Governmental, Fiduciary funds, and Business-type activities:**

Effective March 19, 2010, the Nation entered into a 401(k) plan administered by John Hancock. The Nation will match up to 5% of each employee's actual compensation. Employee contributions are allowed up to \$6,000. The employee is 100% vested in the 401(k). Contributions made by the employees to the 401(k) for the year ended September 30, 2011 were \$421,208. Contributions made by the Nation to the 401(k) for the employees for the year ended September 30, 2011 were \$330,565.

**Discretely presented component units:**

Osage Casinos has a defined 401(k) Plan which covers employees who are 21 years old and have completed 3 months of service. Osage Casinos matches contributions up to 5% of an employee's compensations. Employer contributions were \$907,733 and employee contributions were \$938,925.

Osage LLC has a defined 401(k) plan which covers regular full-time employees of Osage LLC. Osage LLC matches 100% of the employees first 5% contributed to the plan. Contributions made by Osage LLC totaled \$21,268.

## OSAGE NATION

### Notes to the Financial Statements

Year Ended September 30, 2011

#### **Note 15 - Related Party Transactions**

##### **Governmental activities:**

Osage Casinos and Osage LLC are component units of the Osage Nation. At September 30, 2011, the Nation had a receivable from Osage Casinos for \$4,184,199 for its share of the Casino profits. During the year ended September 30, 2011, the Nation transferred \$5,000,000 to Osage LLC for its share of Tribal appropriations. The Nation also had an amount due to various enterprise funds \$167,324 for program appropriations.

##### **Discretely presented component units:**

Osage Casinos participates in the Nation's self-insured employee medical insurance program. Employee health insurance benefits paid by Osage Casinos to the Nation amounted to \$4,571,703. In addition, payments were made to various entities of the Nation and/or entities affiliated with the Nation as follows: Osage LLC, \$421,017; various enterprises of the Nation, \$578,083.

Osage LLC - In 2009 the Osage Nation contributed \$5,928,406, of which \$5,285,000 represented the fair value of the airpark. In December 2011, this property was transferred back to the Osage Nation at its net book value of \$5,611,248.

#### **Note 16 - Contingent Liabilities and Commitments**

The Nation receives financial assistance from numerous federal and state governmental agencies in the form of grants, entitlements, and contracts. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements or contracts and are subject to audit the purpose of which is to insure compliance with conditions precedent with the granting of funds. Management does not believe any liability for reimbursement which may arise as the result of these audits will be material.

USDA WIC Program Review – USDA completed a desk review of the Nation's USDA funded WIC program, which contained several findings and questioned costs totalling approximately \$70,000. The Nation disagreed with the questioned costs and is continuing to work with USDA to provide the information needed to resolve these costs. The Nation does not expect any additional significant financial impact as a result of the desk review.

The Nation has an ongoing investigation regarding embezzlement from a Department of Justice grant program. In addition, the special conditions of the grant required prior approval from the agency for certain types of expenditures from the award that was not obtained. The potential total questioned costs for the embezzlement and the special condition expenditures cannot be quantified at this time. For fiscal year 2011, the anticipated maximum questioned costs are \$29,000. The cumulative impact ultimately due back to the federal government cannot be determined at this time due to the ongoing investigation of the matter. This grant and related activity is recorded in the Other Governmental funds.



**Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

To the Principal Chief and Honorable Members of the  
Osage Nation Congress  
Pawhuska, Oklahoma

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Osage Nation (the “Tribe”) as of and for the year ended September 30, 2011, which collectively comprise the Tribe’s basic financial statements, and have issued our report thereon dated September 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Tribe is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Tribe’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tribe’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tribe’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 11-1 through 11-6 to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tribe's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 11-6 through 11-8.

The Tribe's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Tribe's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Congress, management, others within the Tribe and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Oklahoma City, Oklahoma  
September 10, 2012

11-1	Condition:	The Tribe's financial reporting control system in place during the past fiscal year did not identify prior period adjustments, a significant liability, and omitted the internal service fund required to be presented in accordance with Generally Accepted Accounting Principles (GAAP). It should be noted that the Tribe's current controller and treasurer were hired by the Osage Nation (the Tribe) after the fiscal year-end.
	Criteria:	The development and implementation of a year-end financial reporting control system, including making all adjustments and review of journal entries, is the responsibility of the Tribe's management.
	Cause:	The Tribe has a process at year-end to record adjustments for financial statement presentation, but the process was not effective in identifying all the necessary adjustments and disclosures in accordance with GAAP.
	Context:	The Tribe's financial statements were prepared by a consulting firm with much assistance from tribal management, but material adjustments were necessary, including prior period adjustments.
	Effect:	Material adjustments, including restatement of prior period amounts, by the auditors were necessary to correctly present the financial statements.
	Recommendation:	The Tribe should continue to evaluate and weigh the costs and benefits of developing and implementing a year-end financial reporting system. The year-end financial reporting process should include procedures to identify and record entries in accordance with GAAP. Journal entries made within the system should also be reviewed by management.
	Response:	The Nation will develop a yearend closing schedule and review process to ensure corrections are identified prior to producing financial reports. The current year issues were in large part due to the turnover in senior management in the accounting Tribe.
11-2	Condition:	The Tribe currently does not include background checks and employee references as part of their hiring controls.
	Criteria:	The implementation of controls over the hiring process is the responsibility of the Tribe's management.
	Cause:	The Tribe hires employees based on application information alone, which could contain falsified or embellished information.
	Effect:	The Tribe could be at risk for misappropriation of assets by hiring unethical or unqualified personnel in key financial positions.
	Recommendation:	We recommend that additional controls be added to the hiring process such as background checks and verification of employee references.
	Response:	We will review our processes and policies on background checks to ensure compliance with applicable federal and tribal regulations.





Response: A workgroup has been formed to view and update all Osage Nation policies and procedures.

11-5 Condition: The Tribe had cash transfers that were not approved by former Treasurer.

Criteria: Controls should be implemented over cash accounts that include review of cash transfers.

Cause: During the audit, it was noted that numerous cash transfers were made between accounts without any documentation of management approval for these transfers.

Effect: The Tribe is at risk for accounts not reconciling or misappropriation of assets.

Recommendation: We recommend that the general ledger accounts for cash be reduced to a manageable number to allow for a more simplified reconciliation process and that all transfers are approved.

Response: The Nation was going through a process of combining the cash accounts to improve efficiency. In the process, some funds were found to be under-collateralized and the Treasurer took action to ensure the funds were collateralized by initiating transfers between bank accounts. Subsequent, to yearend, all funds were collateralized and processes will be reviewed to ensure that all transfers are properly approved prior to transfer of funds.

11-6 Condition: The Tribe was not approved to provide transitional housing assistance for one of the Department of Justice grants. Additionally, there was an embezzlement detected in this program during the year under audit with regards to the transitional housing assistance.

Criteria: As outlined in the grant agreement, the Tribe was to spend funds in accordance with the office of Justice Programs and Office on Violence Against Women (OVW) and the approved budget categories. In addition, the special conditions of the OVW grant prohibit the spending of funds on transitional housing assistance for victims unless there is a submitted policy that is reviewed and approved by the OVW.

Cause: The Tribe did not have an approved policy for transitional housing assistance with the Office on Violence Against Women to allow for expenditures in this area. Additionally, controls were not in place to ensure the amounts were spent in accordance with federal regulations and funds were susceptible to misuse.

Effect: The Tribe was at risk for misappropriation of federal funds during the period under audit. During the audit period, embezzlement was discovered where the former federal program director was using federal funds for personal use.

**Recommendation:** The Tribe should review all transactions relating to the period where the former program director was in place to determine any funds due back to the Offices of Justice Programs and Violence Against Women that were misappropriated for other uses. Such research should go into prior periods under the direction of the federal government agency. In addition, we also recommend that the Program formalize and submit a policy on transitional housing assistance so that such assistance can continue under the Program.

**Management's Response:**

A complete review of this program is being performed by the Tribe's Office of Fiscal Performance Review. Policies and procedures are being formalized and a plan for transitional housing will be submitted to DOJ prior to expending the remaining transitional housing assistance funds.

A policy for Transitional Housing was in effect since November 2011, however, in the course of operations an oversight occurred and it was not sent to the funding agency. Our corrective action plan is to send the policy immediately to the funding agency.

The Osage Nation has an office of fiscal performance and review, department of treasury and external auditors using a triangulated method independently reviewing all transactions of the period in which the former director was in place to determine if any funds are due back to the OJP and OVW.

- 11-7      **Condition:**      The Tribe was not spending in accordance with budget policies.
- Criteria:**         As outlined in the grant agreement, the Tribe was to spend funds in accordance with the office of Justice Programs and Office on Violence Against Women (OVW) and the approved budget categories.
- Cause:**           The Tribe did not have controls in place to review purchases of equipment or budget categories.
- Effect:**           The Tribe is out of compliance with internal procurement policies. The Tribe is at risk for misappropriation of federal funds.
- Recommendation:** We recommend that controls be put in place to periodically review purchases made with federal funds and monitor those purchases against federally approved budget categories.

**Management's Response:**

Existing reports are available which allow comparison of actual expenditures to budget. Improvements in review prior to expenditure are being implemented.

- 11-8    Condition:        The Tribe did not report the misuse of federal funding identified in July 2011 until June 2012.
- Criteria:        As outlined in the grant agreement, the Tribe was to report any misconduct relating to federal funds to the federal granting agency as soon as possible.
- Cause:         The Tribe did not have controls in place to report the embezzlement to the federal granting agency as soon as it was known to them, which was approximately early July 2011. The first known communication to the federal agency was in June 2012, eleven months after the embezzlement was made known to the Tribe.
- Effect:         The Tribe is at risk for loss of federal funding.
- Recommendation: We recommend that controls be put in place to report any misconduct relating to the use of federal funds as soon as it is reasonably possible.
- Management's response:  
                            Turnover in financial management staff and lack of clear procedures contributed to this issue. The agency has been informed and the Nation will establish a clear written procedure on roles and responsibilities for this type of reporting.